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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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BOB STUMP, Chairman
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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS ANTHEM
WATER DISTRICT AND ITS SUN CITY
WATER DISTRICT.

DOCKET NO. W-01303A-09-0343

ORIGINAL

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS
ANTHEM/AGUA FRIA WASTEWATER
DISTRICT, ITS SUN CITY WASTEWATER
DISTRICT AND ITS SUN CITY WEST
WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

SUR-REBUTTAL TESTIMONY OF DAN L. NEIDLINGER

WASTEWATER CONSOLIDATION, DECONSOLIDATION AND RELATED ISSUES

Q1. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A1. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive, Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm specializing in utility rate economics.

1 **Q2. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS MATTER?**

2 A2. Yes, I did.

3
4 **Q3. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

5 A3. I am appearing on behalf of the Anthem Community Council ("Anthem"). Anthem is
6 participating in this proceeding on behalf of over 8,800 of its residents that are water and
7 wastewater customers of EPCOR ("EPCOR" or "Company"), formerly Arizona-American Water
8 Company ("AAWC").

9
10 **Q4. WHAT IS THE PURPOSE OF THIS ADDITIONAL TESTIMONY?**

11 A4. My testimony addresses certain recommendations of Staff witness Becker, RUCO witness
12 Mease, Verrado witness Simer and Greg Eisert, Chairman of Government Affairs for the Sun City
13 Homeowners Association. In addition, I will provide a proposed scope and minimum content for
14 an updated cost of service filing by EPCOR based on a calendar 2014 test year. I also have some
15 comments on the rebuttal testimony of the Company.

16
17 **Q5. WHAT IS STAFF WITNESS BECKER RECOMMENDING IN THIS CASE?**

18 A5. Mr. Becker discusses six options for consideration by the Commission. His first option is
19 statewide consolidation, an option I support. The second option is statewide deconsolidation. The
20 third option is deconsolidation of the Anthem and Agua Fria Wastewater Districts. The fourth
21 option is status quo or "do nothing" option thereby allowing Step 3 decreases to Anthem and
22 increases to Agua Fria to occur. I agree with Mr. Becker that options two through four are not
23 viable as evidenced by my discussion of these options in my Direct Testimony. The fifth option is
24 similar to the fourth option except the increase to Agua Fria customers is deferred. I recommended
25 this option in my Direct Testimony as an alternate solution.

26
27 Mr. Becker recommends that the Commission adopt option 6 – the suspension of Step 3 rates,
28 effective January 1, 2015, for Anthem and Agua Fria. While providing some rate relief to Agua

1 Fria customers, this proposal would unfairly deny Anthem customers of the \$800,000 in rate
2 reductions during 2015 promised under the Settlement Agreement. This is an unacceptable option
3 to Anthem. Mr. Becker's first and fifth options are preferable.

4
5 **Q6. PLEASE DESCRIBE THOSE TWO OPTIONS.**

6 A6. The first of these two options, and Mr. Becker's first option, is the total consolidation of all
7 five wastewater districts. This is the option that I recommended in my direct testimony and one
8 also advocated by the Company and other intervenors including Mr. Simer on behalf of Verrado.
9 Under my proposed 2-step consolidation plan, the average monthly wastewater bill in 2015 (Step 1
10 under my plan) for Agua Fria customers would be \$4 per month lower than the suspended rates
11 recommended by Mr. Becker. Under Mr. Simer's more aggressive consolidation plan, Agua Fria
12 average bills for 2015 would be \$23 per month lower than current Step 2 bills.

13
14 The second of these preferable options, and Mr. Becker's fifth option, recommends an accounting
15 order to allow the Step 3 decrease for Anthem but defer the implementation of the Step 3 increase
16 to Agua Fria. This option is comparable to the alternative I discussed on Page 13 of my Direct
17 Testimony. Although not my preferred option, it is a much better option than Mr. Becker's
18 recommended option 6 since it preserves the bargain reached in the Settlement Agreement.

19
20 **Q7. WHAT DOES MR. MEASE FROM RUCO RECOMMEND?**

21 A7. Mr. Mease recommends freezing Anthem and Agua Fria rates at current Step 2 levels –
22 essentially concurring with Mr. Becker's recommendation to suspend the Step 3 rates approved in
23 Decision No. 73227. As previously discussed, I do not agree with this approach for dealing with
24 rate relief for Agua Fria customers since it unnecessarily penalizes Anthem's customers.

25
26 **Q8. DOES MR. MEASE ALSO AGREE WITH MR. BECKER THAT THE COMPANY**
27 **PREPARE AND FILE AN UPDATED COST OF SERVICE FILING?**

28 A8. Yes, however Mr. Mease did not specify a test year or filing date.

1 **Q9. WHAT ABOUT MR. SIMER'S PROPOSALS?**

2 A9. Mr. Simer, on behalf of Verrado, recommends achieving total consolidation in two steps. His
3 plan is essentially the same as that proposed by the Company but implemented over two years
4 rather than one year.

5

6 **Q10. ON PAGES 12, 13, 14 AND 18 OF HIS DIRECT TESTIMONY, MR. SIMER**
7 **DISCUSSES THE BENEFITS OF RECONSOLIDATING THE ANTHEM AND AGUA**
8 **FRIA WASTEWATER DISTRICTS. DID MR. BECKER, MR. MEASE OR ANY OTHER**
9 **INTERVENORS SUGGEST RECONSOLIDATION OF THESE DISTRICTS AS A**
10 **SOLUTION TO THE CURRENT BILL COMPLAINTS BY AGUA FRIA CUSTOMERS?**

11 A10. No, they did not. Mr. Simer's repetitive testimony in that regard takes a serious step
12 backwards when we should be moving forward. My preference is to begin the process of
13 consolidation and to do so now.

14

15 **Q11. MR. EISERT'S REBUTTAL STATEMENT CLAIMS THAT YOU, AS WELL AS**
16 **MR. SIMER, CONSIDERED RECONSOLIDATION AS A VIABLE ALTERNATIVE TO**
17 **FULL CONSOLIDATION. IS MR. EISERT CORRECT?**

18 A11. No, I did not consider or recommend reconsolidation of the Anthem and Agua Fria
19 Wastewater Districts as a viable alternative to full consolidation, or under any other scenarios. As
20 I have just observed, that approach to addressing the rate level issues on the Company's
21 wastewater systems would be a serious step backward, violate the terms of the Settlement
22 Agreement and ultimately punish the Anthem ratepayers.

23

24 **Q12. DO YOU AGREE WITH MR. BECKER'S RECOMMENDATION THAT THE**
25 **COMPANY FILE A NEW RATE CASE BY JULY 1, 2015 FOR ALL OF ITS WATER AND**
26 **WASTEWATER DISTRICTS BASED ON A CALENDAR 2014 TEST YEAR?**

27 A12. Yes, as it relates to EPCOR's wastewater operations. This is consistent with my
28 recommendation in my Direct Testimony but I suggested an April 1, 2015 filing date rather than

1 July 1, 2015. However, I would be comfortable with the setting of a filing date that did not go
2 beyond July 1, 2015. I have not examined the need for a water filing and accordingly, have no
3 opinion with respect to this recommendation of Mr. Becker.

4
5 **Q13. WHAT IS YOUR RECOMMENDED SCOPE FOR THIS UPDATED**
6 **WASTEWATER FILING?**

7 A13. The wastewater filing should include, but not be limited to, the following:

- 8 1. "A" through "H" schedules for each wastewater district;
- 9 2. "A" through "H" schedules consolidated;
- 10 3. Where appropriate, class cost of service "G" schedules, both stand-alone and
11 consolidated;
- 12 4. Segregation of wastewater costs into "TreatCo" and "DistCo" components;

13
14 In addition, a full and complete documentation of all assumptions and calculations supporting the
15 allocation of common labor costs and administrative expenses as well as any corporate costs
16 allocated to Arizona operations should be included in the filing.

17
18 **Q14. PLEASE EXPLAIN THE "TREATCO" and "DISTCO" COST SEGREGATION YOU**
19 **RECOMMEND.**

20 A14. During the initial stages of Anthem's development, a predecessor company of EPCOR,
21 Citizens Utilities Company, organized its water and wastewater operations under two companies
22 called "TreatCo" and "DistCo". For wastewater, "TreatCo" operated all of the wastewater
23 treatment and disposal facilities and "DistCo" was responsible for all of the collection systems.
24 For EPCOR, ratemaking under this concept would require the development of a single
25 consolidated "TreatCo" rate which would then be added to a "DistCo" (or "ClctCo" for
26 wastewater) rate, unique to each of the five wastewater districts, to determine a total rate for each
27 district. Admittedly, the bulk of total wastewater costs are treatment- related. However, this
28 costing process would enable the Commission to evaluate the significance, if any, of current and

1 future collection cost variances among the five wastewater districts and their effect on total rates.
2 In other words, "TreatCo/ClctCo" ("TC") ratemaking represents a modified consolidation
3 approach that still achieves the economies of scale afforded by a single treatment rate while
4 differentiating collection costs.

5
6 **Q15. WOULD THE UNBUNDLING OF WASTEWATER COSTS PROVIDE THE**
7 **COMMISSION WITH MORE RATEMAKING FLEXIBILITY?**

8 A15. Yes. For instance, the Commission might decide to set a floor and ceiling on treatment cost
9 components thereby altering revenue sharing among the districts that would otherwise be fixed by
10 a single treatment rate. I am not advocating this adjustment mechanism at this time but mention it
11 only as one of the possible options under TC ratemaking. Further, system-wide treatment costs
12 could be used as a measure of prudence in evaluating EPCOR's future treatment plant additions.

13
14 **Q16. DO YOU HAVE ANY COMMENTS ON THE REBUTTAL TESTIMONY OF THE**
15 **COMPANY?**

16 A16. Yes. Ms. Hubbard states in her rebuttal testimony that my proposed 2-step rates are
17 incomplete since revised commercial rates were not provided and therefore cannot be evaluated
18 from a revenue-neutral standpoint. I recommended in my Direct Testimony revenue neutral,
19 across-the-board adjustments be made, at this time, to all commercial rates due to the complexities
20 of the analysis required to properly redesign these rates. Mr. Becker's testimony on bill impacts to
21 certain commercial customers under the Company's proposed rates demonstrates the need for this
22 further analysis. This undertaking should be delayed until the aforesaid updated filing is made by
23 the Company.

24
25 The Company agrees with the use of calendar 2014 as the basis for an updated wastewater filing.
26 However, Mr. Bradford's rebuttal testimony states that the Company cannot make this filing before
27 September 30, 2015. I originally proposed an April 1, 2015 filing date but, as stated earlier in this
28 testimony, I can support a filing date no later than July 1, 2015 as proposed by Staff. In my view,

1 six months is more than adequate time for the Company to accomplish this task. The Company
2 was put on notice in June 2012 by Decision No. 73227 that the Commission wanted it to file a
3 system-wide rate case proposing consolidation "as soon as possible". The time for doing so is long
4 overdue, and the Company has the resources to do so by July 1, 2015.

5
6 **Q17. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

7 A17. Yes, it does.
8

9 ORIGINAL AND THIRTEEN (13) COPIES
10 of the foregoing HAND-DELIVERED
for FILING this 4th day of November, 2014 to:

11 Docket Control
12 Arizona Corporation Commission
1200 W. Washington Street
13 Phoenix, AZ 85007

14 and COPY of the foregoing mailed or e-mailed
15 this 4th day of November, 2014, to:

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17 By _____